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SUBJECT: WELCOME TO PARAGUAY, US SOUTHERN COMMAND CDR.

CRADDOCK

Classified By: Polcouns James P. Merz for reasons 1.4 (b) and (d).

1. (C) General Craddock, Embassy Asuncion and I warmly welcome your visit as an opportunity to promote U.S. interests in military, counter-narcotics and counter-terrorism cooperation with Paraguay. You come at a particularly sensitive time, with press and political activity calling into question important aspects of our military to military relationship. The open and permissive environment for exercises and other military activities here is both extremely valuable and potentially vulnerable to local and regional pressures. The following updates the situation you will find and highlights key issues. It is important to avoid discussion of the ICC with Paraguayan interlocutors.

Your Program in Asuncion

2. (U) I am glad to have this opportunity to host your visit to Paraguay. After we meet, the visit will begin with the Country Team's brief on the overall situation in Paraguay. We then will transition to more detailed discussions on CT. We have arranged for you to visit both the Minister of Defense, Dr. Roberto Gonzalez Segovia and the Commander of Armed Forces, GEN Jose Key Kanazawa Gamarra, and his service chiefs. I understand that you met CHOD GEN Kanazawa in Buenos Aires last month during the Southern Cone Defense Conference. This meeting should afford you a good opportunity to further your relationship with him. I also recommend a meeting with Vice President Castiglioni. We are also making arrangements for you to visit Ciudad del Este. I understand this will be your first visit to Paraguay. I believe that you will find your stay to be both enjoyable and fruitful.

The Political Scene: President Duarte's Efforts Under Fire

3. (C) Your visit comes almost two years into the presidency of Nicanor Duarte Frutos. In that time, Duarte has taken steps to deal with a pressing fiscal crisis, revive the economy, and fight corruption. In recent months, however, political support for Duarte has sagged with polls indicating the general population is not satisfied his government has taken adequate measures to improve the economy and tackle corruption. As part of a pact to gain control of the Congress with the support of dissident Congressmen from opposition parties, Duarte's party, the Colorados, supported election of a member of the socialist "Country in Solidarity" Party Senator (Carlos Fillizola) to be President of the Congress. Congressmen opposed to this tenuous pact are bitter about having lost control of the Congress in the June elections and threaten to undermine the Colorados' legislative agenda. Fillizola is a strong supporter of the ICC, opposes U.S. military exercises, and has called actions in Afghanistan and Iraq "Genocide." While as President of Congress he will likely moderate his views, his ascendancy is troubling for the U.S. agenda.

Paraguay's Public Security Challenges

4. (U) Members of the Patria Libre Party (PPL), a far-left political movement based in the countryside, kidnapped and subsequently murdered the daughter of a former president, Cecilia Cubas, whose body was discovered in February. Evidence ties the PPL to the FARC. A culture of distrust allowing for little interinstitutional cooperation hampers the ability of Paraguay's law enforcement community to tackle rising concerns about public security; Paraguay's National Police are widely disparaged by the general population as incompetent and corrupt. Last November, given the lack of confidence in the police, the President called the military out of the barracks to assist with law enforcement efforts. Its profile on the street has diminished in recent months as focus on the Cubas kidnapping recedes from the public eye. The Cubas killing and clear evidence of FARC involvement shocked Paraguay's leaders and population. Increased cooperation with Colombia and realization of the need for

better intelligence and other security measures were one result.

Reforming the Economy, But Growth Insufficient

15. (U) Paraguay's economy relies on agriculture. It features bloated but weak state institutions and the heavy involvement of state-owned enterprises. There is considerable activity involving the trading of imported legitimate goods, contraband and counterfeit products, most of which are destined for Brazil or Argentina. The Duarte government took office in 2003 on the heels of Paraguay's worst recession in years promising to attack widespread corruption and reform the economy. He named a non-partisan, technocratic economic cabinet and has supported their efforts. On a macroeconomic level, Paraguay's performance has been strong: economic growth reached 2.6 and 2.9 percent in 2003 and 2004, respectively, and inflation was brought down to near 3 percent in 2004. However, whereas the government succeeded early on in getting some significant economic reform laws through Congress, progress over the last year has been slow. For Paraguay to escape from the poverty affecting roughly half of its population, the country needs to increase productivity by attracting capital and raising annual growth rates closer to 5 or 6 percent. Success will require the government to stay the course on macro economic stability and undertake deeper structural reforms.

International Crime and Counter Terrorism

16. (U) The Tri-Border Area (TBA), the area of Paraguay that meets Brazil and Argentina, near the city of Ciudad del Este, is a primary area of USG concern due to the high rate of transnational crime that impinges on U.S. interests. The area is notorious for drug and other smuggling, including trafficking in persons, intellectual piracy, document forgery, counterfeit cigarette manufacturing and loose border controls, especially at the Friendship Bridge connecting Paraguay with Brazil. A priority concern for that region is terrorist fundraising, especially by Hezbollah. Despite the lack of specific antiterrorist statutes, Paraguay has actively prosecuted known terrorist fund-raisers on tax evasion charges. President Duarte noted the threats from international crime, including terrorist fund raising, in his July State of the Union.

17. (SBU) Paraguay is a significant transit point for the transportation of cocaine and other narcotics by air from Colombia to Brazil. Much of the northwestern part of the country is barren and uninhabited, and the GOP has difficulties in enforcing the law due to geography and the political power some drug traffickers wield. SENAD, the national anti-narcotics secretariat, coordinates GOP interdiction efforts, with significant assistance from the DEA. In November 2004, Paraguay and Brazil collaborated in a joint operation, with DEA assistance, that produced an historic seizure of over 260 kilograms of cocaine and the arrest of notorious Brazilian drug trafficker Ivan Carlos Mendes Mesquita, wanted in the U.S. on drug trafficking charges involving Colombia's FARC guerrillas. Paraguay cooperated with the USG extradition request and Mendes Mesquita was taken into U.S. custody on June 27, a dramatic and unprecedented step. Clear congratulations are appropriate. Post considers this case emblematic of the success we have been able to achieve by working with the SENAD as an autonomous unit. Paraguay has no radar coverage throughout the entire country and it is not unlikely some interlocutors will request U.S. assistance in this area. We are looking into this possibility in the context of JIATF's "Southern Light" but Paraguay has many other tasks more important than obtaining radars, and we are supporting phased improvements in enforcement and prosecution.

U.S. Interests in Paraguay

18. (SBU) U.S. interests in Paraguay are focused on strengthening democratic institutions, promoting sound economic policies and good governance, disrupting criminal organizations, and combating terrorist financing. Post maintains bilateral assistance programs dealing with combating narcotics trafficking, money laundering, intellectual property violations, and trafficking in persons. Post has a Department of Justice Resident Legal Advisor and a Department of Treasury Resident Enforcement Advisor who have worked quietly behind the scenes over the past year to assist the Paraguayan Government in developing appropriate money laundering and counter terror legislation. In the wake of the Cubas kidnapping, Vice President Castiglioni traveled to the U.S. for meetings with VP Cheney, SECDEF Rumsfeld, and other key officials to discuss a comprehensive approach to Paraguay's security challenges, including a planned

high-level seminar sponsored by the Center for Hemispheric Defense Studies (CHDS) in September or October. USAID and the Peace Corps also have programs in the country. Paraguay has been named a threshold country for Millennium Challenge Account funding; its poor historical record on corruption was the major reason it did not qualify for full participation in the program.

The Military's Mission

¶9. (SBU) Paraguay's military is a small force struggling to redefine its mission while it endures insufficient funding, scandals, and frequent and questionable leadership appointments. The Army is the largest of the three services (9,000), followed by the Navy (2,000) and Air Force (1,200). The Navy has a law enforcement mission on Paraguay's rivers. The military's primary mission is to protect Paraguay's territorial integrity, defend the legitimate authorities in accordance with the Constitution, and cooperate in civil defense. It does not have a lead role in counter drug operations; however, the military provides a specialized tactical unit to support SENAD. The military's Special Forces unit is in the process of organizing a company-size counterterrorism unit, and the Presidential Guard Unit has a specialized counterterrorist platoon. More recently, Paraguay has attempted to increase its presence in peacekeeping operations. It is seeking Spanish support to deploy a 200 person contingent to Haiti subsequent to a failed attempt to get sufficient Brazilian support.

¶10. (U) Military infrastructure and equipment is old, obsolete and in desperate need of repair/replacement. Paraguay's defense budget for 2005 represents approximately 1.7 percent of the national budget or USD 59M, an USD 8M increase over 2004. Ninety percent of the budget is used to pay salaries and 5 percent is used for sustaining conscripts, leaving only 5 percent for operations, maintenance and training. Budget problems are not expected to go away in the near future due to lack of strong support in congress and lingering memories of Paraguay's 35-year dictatorship among some politicians. Also, the military is continuously beset by public scandals including the July 4 arrest of an active duty AF Colonel for flying smuggled cigarettes into Argentina.

¶11. (U) Despite the above-noted challenges, the military has remained subordinate to civilian authority and has remained in their barracks. When called, it has supported law enforcement activities, public health campaigns and provided transportation assistance for farmers to bring their products to market. The military is still seen as the first to be called whenever there is a "crisis," and many Paraguayans feel "safer" when the military is out on the streets with the police. The role of the Presidential Guard and its leader, Col. Galeano, have created controversy. With its own armor, artillery and other material, and better trained troops, it is the strongest unit in country and acts independently.

Strong Record of Military Cooperation

¶12. (U) Post's Office of Defense Cooperation (ODC) has developed a robust JCET/CNT program, second to only that of Colombia in the region, and implemented the Counter Terrorism Fellowship Program contributing significantly toward establishment of host nation CT capability, including designation and creation of a Paraguayan Tier 1 unit. Funding from the Enhanced International Peacekeeping Cooperation (EIPC) program has facilitated the training of over 700 observers and peacekeepers and the deployment of approximately 252 Paraguayans in support of peacekeeping operations in this hemisphere and Africa. Currently, 61 Paraguayans are deployed in support of peacekeeping operations. Separately, ODC has also launched an outreach program, leveraging the State Partnership Program, designed to encourage the military to build institutional links with legislators in part through visits by Paraguayan Congressmen as well as Flag officers from the Joint Staff and Ministry of Defense with their counterparts in the U.S. The partnership with the Massachusetts National Guard is robust; the MARNG designation of a full time TCA coordinator from MARNG has greatly promoted this lash up. These visits have generated greater appreciation for the value of military cooperation and helped solidify support in Congress for approval of protections and authorizations for U.S. participants in the exercises. The incredible impact of MEDRETES and other humanitarian deployments in poor areas over the years is invaluable. During a recent public controversy, one legislator answered critics of military exercises by citing the poor who have vision, hearing, or their lives saved. US military support after the tragic fire last August also made a lasting impression.

¶13. (U) In the absence of a SOFA, the U.S. has gained protections for U.S. participants in a diverse range of U.S.-Paraguay joint military exercises for defined periods of time, most recently gaining Congressional approval of immunities for exercises scheduled from July 2005 through December 2006. In June, however, an article in an Argentine newspaper criticizing the Paraguayan Senate's decision to extend the immunities for these exercises and suggesting these exercises were a harbinger to creation of a U.S. base in Paraguay, prompted significant press treatment here on the issue. FM Rachid and MOD Gonzalez defended the decision, qualifying it as consistent with GOP treatment of cooperation agreements with other countries and with Paraguay's commitments under the Rome Treaty. In late June, the Senate granted the U.S. participants permission to enter for these exercises over the next 18 months.

¶14. (SBU) In 2003, President Duarte said Paraguay would not negotiate an Article 98 agreement. Nevertheless, Paraguay's FM has conveyed a willingness to extend protections to U.S. citizens provided it would not have to be approved by Paraguay's Congress and would not be considered to contravene Paraguay's Rome Treaty obligations. Negotiations have been going on for two years. In the wake of the recent flap over the immunities for participants in military exercises, Argentina, Brazil, Paraguay, and Uruguay signed a declaration at the MERCOSUR Summit committing themselves not to sign bilateral or multilateral agreements that would affect the jurisdictional basis of the ICC, particularly in connection to Article 98. Paraguay's lawyer for Article 98 negotiations with the U.S. conveyed concern that this declaration could pose a further obstacle to concluding an agreement.

¶15. (SBU) Paraguay currently provides a very permissive environment for U.S. military exercises. Given the recent flap over immunities for those exercises and the MERCOSUR Summit declaration, negotiations over Article 98 negotiations have entered a very delicate stage with lawyers on both sides engaging closely. We recommend not entering into a discussion of this issue given the risk it could prompt another controversy that could set back negotiations on Article 98 and the record of success on protections for current exercises.

The Impact of Your Visit

¶16. (U) Press interest in the your visit will be high, although not exceedingly so as members of the Paraguayan press are accustomed to visits by SOUTHCOM chiefs. The Paraguayan journalists are generally friendly people. Even if you have no time, it is better to stop and answer one question than to refuse questions. If you refuse, then it becomes a case of offended reporters claiming "secret meetings." It is also advisable to plan in advance with your meeting host what you will say to the press after the meeting and to stick to answering questions on topics that you are comfortable with. If something out of your area is asked, refer the question to the U.S. Embassy press office or the Ambassador.

Some talking points you might consider are:

Purpose of visit

-- This is an initial visit to Paraguay to meet key civilian and military leaders valued friend.

Immunities for troops

-- The immunities granted to U.S. troops by the Paraguayan Congress are typical of those that would be granted to troops doing similar training in other countries.

-- The Ambassador can provide more details about the bilateral discussions and arrangements here in Paraguay.

International Criminal Court/Treaty of Rome

-- I would refer you to the Ambassador on this issue.

Rumors of a base

-- Reports of the basing of U.S. troops is without any basis in fact.

-- The truth is that small numbers of U.S. personnel, generally 10-20 persons, will train with their Paraguayan military colleagues during periods of two to six weeks. No U.S. soldiers will be deployed in Paraguay for extended periods of time, and there will never be more than a few dozen U.S. service members in Paraguay for longer than 45

days.

-- The exercises include humanitarian medical assistance to thousands of needy campesinos and others in the interior.

-- The exercises will take place during the next 18 months. The official status for these troops, for sake of efficiency, was requested for the trainings and medical exercises over the entire time period.

-- Again, none of the trainings lasts more than 45 days. These exercises are not linked to any other assistance being provided by the U.S. government.

Guarani aquifer (rumors that the U.S. wants to steal Paraguay's supply of fresh water)

-- I have heard of these rumors and they are without basis in fact.

-- The U.S. has access to adequate water supplies. In the unlikely event of a crisis, there are sources much closer and more cost-effective.

International Crime and Counter-terrorism

-- As clearly outlined in the U.S. report on global terrorism, we believe the activities in the Tres Fronteras are basically fundraising and financing) not operational in nature.

-- We rely on the authorities in the countries involved to provide the legal structure to allow the investigation, arrest, and prosecution of persons involved in such activities.

-- We are pleased by Paraguay's active cooperation in the fight against terrorism. It has taken important steps to counter this grave problem and was instrumental in helping strengthen regional cooperation with the U.S. (through the "3 1" mechanism).

But where is your proof that Paraguay funds terrorists?

-- President Duarte mentioned the threat from terrorist financing in his annual message to congress

-- Illicit activity, particularly along the tri-Border, fosters corruption, discourages investment, inhibits economic development, and creates a milieu favorable to money launderers and terrorist financiers.

-- In recent years, Paraguay has convicted individuals for tax evasion who have also been implicated in laundering money to terrorist groups.

-- It is vital Paraguay continue to prosecute and convict those implicated in illicit activity, including money laundering and terrorist financing.

Anti-drug effort

-- Paraguay is making an important effort against drug trafficking, despite limited resources. We applaud historic achievements including the arrest and extradition of Mendes Mesquita who had ties to the FARC.

-- We are confident there will be continued good performance in this area, which will benefit the Paraguayan people, as well as the region at large.

What will SOUTHCOM be doing to help Paraguay fight drug trafficking? Can you give us radars and helicopters?

-- In 2004, the U.S. provided Paraguay with USD 1,000,500 in funds to assist Paraguay in combating narcotics trafficking, money laundering, trafficking in persons, and intellectual property rights piracy.

-- Those funds support training for judges, prosecutors, and police, purchase of equipment, and conduct of operations. U.S. funds also support construction of SENAD offices in Pedro Juan Caballero and expansion of SENAD's offices in Mariscal Estigarribia.

-- Since 1987, the U.S. has donated over USD 5.8 million to assist Paraguay's law enforcement efforts.

What will SOUTHCOM do to help Paraguay deal with the threat posed by the FARC?

-- Evidence of FARC ties to the Cubas kidnapping is very disturbing. The FARC has demonstrated its readiness to commit any number of atrocities, including kidnappings and other forms of terrorism, to advance its objectives.

-- The U.S. recognizes Paraguay's commitment to address this

problem. We are exploring ways we can support Paraguay, particularly in the law enforcement field, with appropriate training.

-- In May, the Vice President traveled to the U.S. to discuss ways to expand U.S.-Paraguayan cooperation. That visit produced agreement to create a Trade Transparency Module in the Customs Department, provide anti-kidnapping training, and conduct a workshop sponsored by the Center for Hemispheric Defense Studies (CHDS).

KEANE